

How the institutional environment affects the banking sector: Evidence from BRICS

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Abstract

© 2018 Institute of Physics Publishing. All rights reserved. The BRICS countries are the largest economic bloc, and in many forecasts it is believed that the prospects for the growth of the world economy are related to their development (World Bank 2015, Randers 2012). On the one hand, the backwardness of the banking systems of the BRICS countries may be a factor in the financial vulnerability of countries in the future; on the other hand, the creation of institutional conditions for the effective functioning of the banking system is a potential source of economic growth in the BRICS countries. In this article the institutional environment of the banking system of the BRICS countries are analyzed. There is exploration of the key statistical characteristics of the banking sector, the main trends in its development. The institutional structure of the banking system is represented by external and internal institutions. The main aspect of the study is to reveal the characteristics of the external institutional environment. The purpose of our study is to test the following hypothesis: factors of the external institutional environment affect the banking system. The subject of the study is the BRICS countries banking system. The period of study: 2004 - 2015. We selected three characteristics: the degree of development of the banking system, the stability and efficiency of the banking system. We used the construction of econometric models to test the hypothesis. The findings of the investigation have distinguished the main characteristics of the external institutional environment that have an impact on the banking sector and determine its effectiveness: the size of the public sector and the degree of state intervention in the economy; tax freedom; freedom of doing business; historical and political characteristics; investment and monetary freedom.

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